

Pennsylvania Credit Union League & Pacul Services, Inc.



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July 3, 1997

John P. Galligan
Director, Card Technology Division
Financial Management Service
U.S. Department of Treasury
Room 526, Liberty Center
401 14th Street, SW
Washington, DC 20227

RE: ELECTRONIC BENEFITS TRANSFER PROPOSAL

Dear Mr. Galligan:

The Pennsylvania Credit Union League is a trade association that represents nearly 900 credit unions in the Commonwealth of Pennsylvania. On behalf of our member credit unions, this letter is in response to the Treasury Department's request for comments on Electronic Benefits Transfer (EBT).

Serving the Unbanked: Membership

The background to Treasury's EBT proposal indicates that Treasury desires to deliver federal payments to individuals who do not have bank accounts electronically. Treasury refers to those people as "unbanked recipients".

Serving unbanked recipients poses a difficult challenge for credit unions. Federal credit unions (FCUs) are chartered by the National Credit Union Administration (NCUA), and their powers are prescribed by the Federal Credit Union Act (FCUA). The FCUA states, "Federal credit union membership shall be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community or rural district." 12 U.S.C.A. §1759. State credit unions (SCUs) are chartered by the Pennsylvania Department of Banking. The membership of a SCU may consist of "groups having a ... common bond of association within a well-defined community or rural district by reason of occupation or of membership in a religious congregation or fraternal or labor organization or residence within a well-defined community or rural district." 17 P.S. § 701. In short, credit unions may only serve individuals who qualify for membership.

In Pennsylvania, the vast majority of credit unions have occupational-based membership. Many of the unbanked may not have held jobs. Similarly, these individuals may not be members of fraternal organizations or associations that opt for credit union service. Because of this, many unbanked recipients will not qualify for credit union

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membership. Credit unions may only serve members. Serving non-members creates a compliance dilemma for FCUs and SCUs. Unfortunately, credit unions may lack the legal authority in many cases to serve the unbanked.

207.2 Definitions

Disburse: Pursuant to the definition of the term "disburse" an institution providing EBT services shall provide access to the EBT account on terms specified by Treasury. There is no further clarification.

If Treasury specifies account terms, a financial institution's account agreement may be overridden. This creates an operational problem for the financial institution. The EBT accounts are simply retail accounts accessed by a debit card. There's no reason this account should be offered on terms any different from other retail accounts. Treasury should clarify this definition to state that a financial institution may offer an EBT account pursuant to the same terms and conditions that apply to similar accounts.

207.3 Duties of Financial Agent

Proposed Section 207.3 (a)(1) states that an EBT account may be closed only at the direction of Treasury. This exposes an institution to potential losses related to account abuse. The regulation should allow an institution to deny service and close the account where the recipient causes a loss.

We hope these comments are helpful.

Sincerely,

PENNSYLVANIA CREDIT UNION LEAGUE



Richard T. Wargo, Jr., Esq.
Director, Compliance and Information

RTW:brn

cc: J. McCormack
D. Shakespeare
Regulatory Review Committee